



June 2020 MOD0186

Nitin Prajapati

June 2020; updated to include RIIO-2 forecast

Cadent
Your Gas Network

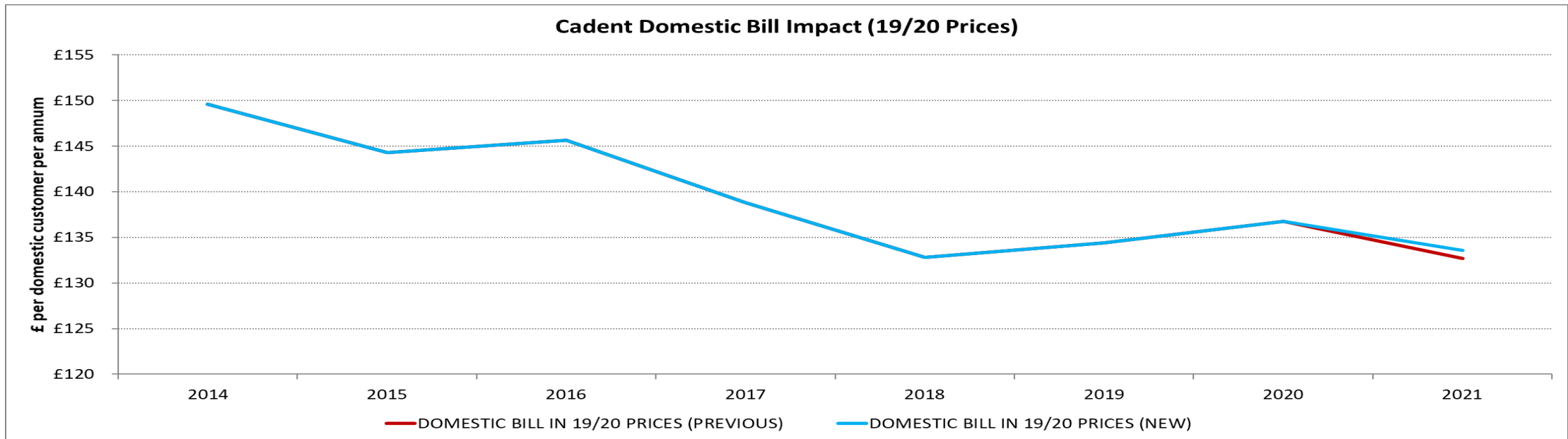
Key Updates for June 2020 MOD0186

The June MOD0186 provides the final collected revenue values for 2019/20 and an updated collected revenue forecast for 2020/21. There is also an updated view of revenue for the RIIO-2 years following the implementation of MOD0678A, 'Postage Stamp' and other changes since our December-19 plan submission.

- 2020/21 revenue forecast refresh is based on the first set of invoices for this formula year
- For RIIO-GD2, the current revenue forecast is before the release of Ofgem's Draft Determination due in early July, and are therefore is subject to change. The drivers for change in revenue forecast relative to our January MOD0186 release includes the impact of;
 - Ofgem agreeing to MOD0678A; increasing our Pass Through costs and therefore revenue
 - Government decision to delay the revaluation of Business Rates
 - Government decision not to reduce the rate of corporation tax rate to 17%
 - HMT forecast inflation rates

Summary Position

HEADLINE MOVEMENT SINCE LAST REPORT	CADENT							
	2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,957.9	1,926.1
MOVEMENT ▼	-	-	-	-	-	-	3.0	(5.1)
COLLECTABLE REVENUE (NEW)	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,961.0	1,921.0
% MOVEMENT	-	-	-	-	-	-	+0.2%	(0.3%)
DOMESTIC BILL IN 19/20 PRICES (PREVIOUS)	£149.60	£144.27	£145.64	£138.80	£132.78	£134.42	£136.75	£132.70
MOVEMENT ▲	-	-	-	-	-	-	-	+£0.90
DOMESTIC BILL IN 19/20 PRICES (NEW)	£149.61	£144.27	£145.64	£138.80	£132.78	£134.42	£136.75	£133.60



Collectable Revenue Trace

COLLECTABLE REVENUE TRACE	CADENT							
	2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)	1,823.30	1,793.50	1,853.60	1,821.80	1,800.50	1,879.50	1,957.90	1,926.10
FINAL 2019/20 COLLECTED REVENUE ▲	-	-	-	-	-	-	3.0	-
2020/21 COLLECTED REVENUE FORECAST ▼	-	-	-	-	-	-	-	(5.1)
COLLECTABLE REVENUE (NEW)	1,823.30	1,793.50	1,853.60	1,821.80	1,800.50	1,879.50	1,961.00	1,921.00
% MOVEMENT	-	-	-	-	-	-	0.2%	(0.3)%

The changes from the March quarterly revenue forecast are:

- Final collected revenue values for 2019/20 based on invoice values from February and March
- A collected revenue forecast for 2020/21 based on our initial assessment of the full year impact of April collected revenue relative to the tariff forecast

Risks to Revenue Collection:

- As a result of COVID-19, we are aware of a potential reduction in demand. We continue to monitor & update in future revenue forecasts

Collected Revenue Forecast

FINAL 2019/20 COLLECTED REVENUE		2020
EAST OF ENGLAND (£M)	▲	2.2
LONDON (£M)	▲	0.3
NORTH WEST (£M)	▲	0.3
WEST MIDLANDS (£M)	▲	0.2
CADENT (£M)	▲	3.0
EAST OF ENGLAND (%)	▲	+0.3%
LONDON (%)	▲	+0.1%
NORTH WEST (%)	▲	+0.1%
WEST MIDLANDS (%)	▲	+0.1%
CADENT (%)	▲	+0.2%

- This forecast takes into consideration invoices from February – March 2020 to show the final revenue collection for 2019/20
- For 2019/20 final revenue collection at a Cadent level was £1,961m which was an over recovery of £7.5m or +0.38% against allowed revenue.

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	CADENT
2019-20 ALLOWED REVENUE (£M)	650.3	466.4	480.2	356.5	1,953.5
2019-20 COLLECTED REVENUE (£M)	652.3	468.1	480.8	359.7	1,961.0
OVER RECOVERY (£M)	2.0	1.7	0.6	3.1	7.5
OVER RECOVERY %	+0.3%	+0.4%	+0.1%	+0.9%	+0.38%

Collected Revenue Forecast

2020/21 COLLECTED REVENUE FORECAST		2020	2021
EAST OF ENGLAND (£M)	▼	-	(1.6)
LONDON (£M)	▼	-	(1.2)
NORTH WEST (£M)	▼	-	(1.3)
WEST MIDLANDS (£M)	▼	-	(1.0)
CADENT (£M)	▼	-	(5.1)
EAST OF ENGLAND (%)	▼	-	(0.3)%
LONDON (%)	▼	-	(0.3)%
NORTH WEST (%)	▼	-	(0.3)%
WEST MIDLANDS (%)	▼	-	(0.3)%
CADENT (%)	▼	-	(0.3)%

- A collected revenue forecast for 2020/21 based on our initial assessment of the full year impact of April collected revenue relative to the tariff forecast
- We will update our collected revenue forecast in September with the latest available information

Allowed Revenue Summary

ALLOWED REVENUE SUMMARY (ALL FIGURES £M NOMINAL)	CADENT							
	2014	2015	2016	2017	2018	2019	2020	2021
OPENING BASE REVENUE ALLOWANCE	1,793.6	1,800.2	1,867.1	1,835.5	1,890.8	1,950.5	2,005.6	2,033.9
PCFM ANNUAL ITERATION ADJUSTMENT	-	(13.4)	(28.3)	(23.9)	(78.4)	(86.5)	(126.9)	(162.5)
RPI TRUE UP	-	-	6.5	(25.8)	(41.6)	(7.7)	5.1	(1.6)
BASE REVENUE	1,793.6	1,786.8	1,845.2	1,785.8	1,770.7	1,856.4	1,883.8	1,869.7
PASS THROUGH	0.2	(0.1)	2.9	4.3	15.2	15.4	49.4	50.4
EXIT CAPACITY (INCENTIVE)	-	-	5.0	11.4	28.1	21.2	22.6	22.9
EXIT CAPACITY (COST PASS THROUGH)	-	-	(4.0)	(2.7)	(10.6)	(10.3)	(10.1)	(33.4)
SHRINKAGE INCENTIVE	-	-	2.0	1.6	1.4	1.1	1.4	2.4
SHRINKAGE COST PASS THROUGH	-	-	(7.1)	(17.3)	(23.0)	(12.5)	(9.5)	(5.2)
BROAD MEASURE OF CUSTOMER SATISFACTION	-	-	5.8	4.6	7.9	8.4	8.5	10.2
ENVIRONMENTAL EMISSIONS INCENTIVE	-	-	6.5	7.1	8.2	6.7	7.4	10.6
DISCRETIONARY REWARD SCHEME	0.9	0.8	-	0.5	-	-	0.6	-
NETWORK INNOVATION ALLOWANCE	2.5	6.9	8.6	6.8	6.6	4.4	5.5	8.2
UNDER / OVER COLLECTION B/F	6.1	-	(20.7)	0.9	(9.8)	(19.4)	(5.9)	(8.5)
MAXIMUM ALLOWED REVENUE	1,803.4	1,794.4	1,844.1	1,803.0	1,794.8	1,871.4	1,953.5	1,927.3
COLLECTABLE REVENUE FORECAST	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,961.0	1,921.0
UNDER / OVER COLLECTION C/F	19.9	(0.9)	9.5	18.7	5.7	8.1	7.5	(6.3)

RIIO-2 revenue forecast update and impact of MOD0678A

All in £m Nominal Prices for all networks unless stated

	2021/22	2022/23	2023/24	2024/25	2025/26
January MOD0186 Allowed Revenue	1,909	1,988	1,933	1,946	1,974
Impact of MOD678:A NTS pricing: Postage Stamp (prior forecast assumed CWD) - Note A	32	55	52	55	51
Business Rates revaluation - assume delayed - Note B	26	27	27	28	28
Tax rate: expected decrease to 17% has not occurred - Note C	14	13	13	13	13
Change in inflation forecast - Note D	(46)	(63)	(51)	(57)	(63)
Other items including RIIO-1 performance outturn to RIIO-2	38	16	5	6	8
June MOD0186 Allowed Revenue	1,974	2,036	1,979	1,992	2,011
<i>Delta (January to June)</i>	65	47	46	46	37

Notes below provide reference to existing changes.

Future forecasts to note the impact on Draft Determinations (due 9 July 2020) and Pension deficit revaluation along with other changes such as inflation etc

Note A: <https://www.gasgovernance.co.uk/0678>

Note B: <https://www.gov.uk/government/news/business-rates-revaluation-postponed>

Note C: <https://www.gov.uk/government/publications/changes-to-corporation-tax-rates-from-1-april-2020/corporation-tax-main-rate-at-19-in-2020-and-charge-and-main-rate-for-2021>

Note D: <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-may-2020>

- RIIO-2 forecast revenues are based on latest information relative to our January MOD0186 release, see accompanying notes, as at May 2020
- Revenue forecast is prior to the release of Ofgem’s Draft Determination and subsequent response, and therefore subject to change
- Other items largely relate to lagged revenue adjustments from RIIO-1 and other low value items
- Detailed Network view of the RIIO-2 revenue forecast has been uploaded to the JO website, which includes details on price changes

Anticipated updates in Sept 2020

The September report will include updates for:

- Refreshed collected revenue positions for 2020/21
- Where possible, any relevant updates to the RIIO-2 years following information released as part of the Draft Determination and Cadent's response to it